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May 30, 2019

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

File Reference No. 2019-500

Dear Ms. Cospers:

RSM US LLP is pleased to provide feedback on the proposed Accounting Standards Update (ASU), *Income Taxes (Topic 740): Disclosure Framework – Changes to the Disclosure Requirements for Income Taxes*. We appreciate the opportunity to provide comments, and we support the Board's overall objective of improving the effectiveness of disclosures in the notes to the financial statements. We believe the amendments in the proposed ASU regarding income tax disclosures represent a significant component of achieving that overall objective. Our responses to the questions for respondents follow.

Responses to Questions for Respondents

Question 1: *Would the amendments in this proposed Update that add or modify disclosure requirements result in more effective, decision-useful information about income taxes? Please explain why or why not. Would the proposed amendments result in the elimination of decision-useful information about income taxes? If yes, please explain why.*

We believe the proposed amendments would result in more effective disclosure of decision-useful information about income taxes. In particular, foreign activities of U.S. companies have increased significantly since the existing standards on income tax disclosures were developed. Therefore, users of both private and public financial statement have indicated a desire for more information about foreign earnings and the tax effect of those earnings. The proposed ASU will require disclosure of certain income and tax information disaggregated between domestic and foreign operations. This information will help financial statement users better understand an entity's tax exposures, both domestically and in foreign countries and better understand the sustainability of an entity's tax rate.

We do not believe the proposed amendments result in the elimination of decision-useful information.

Question 2: *Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability or auditability issues and why?*

We believe the proposed disclosure requirements are operable and auditable.

Question 3: *Would any of the proposed disclosures impose significant incremental costs? If so, please describe the nature and extent of the additional costs.*

The *initial* Exposure Draft on this topic, issued in 2016 (File Reference No. 2016-270), included certain proposed disclosures for which, we believed, the benefit of providing the information did not justify the related incremental costs and complexities. However, the proposed ASU has removed

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those disclosures and while entities may initially incur moderate costs as a result of the amendments in the proposed ASU, we believe the benefit of the information provided would justify those incremental costs.

Question 4: *One of the proposed amendments would require entities to disclose pretax income (or loss) from continuing operations before intra-entity eliminations disaggregated between domestic and foreign, which initial feedback indicated would reduce diversity in practice. Would this proposed amendment be operable? Should the Board specify whether the disclosed amounts should be before or after intra-entity eliminations? Why or why not?*

We believe the proposed amendment requiring disclosure of pretax income (or loss) from continuing operations disaggregated between domestic components and foreign components is operable.

Further, we believe the Board should specify whether the disclosed amounts are *before* or *after* intra-entity eliminations. Specifying whether the disclosed amounts should be before or after intra-entity eliminations would reduce diversity in practice. In particular, we believe the Board should specify that the disclosed amounts should be *before* intra-entity eliminations. We believe that the disclosure of pretax income (or loss) of domestic and foreign components is more useful if the components are presented *before* intra-entity eliminations (i.e., are presented at their “grossed up” amounts). That is because the grossed-up amounts more closely correspond to the actual amounts of domestic and foreign tax expense (or benefit).

Question 5: *Would a proposed amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction be operable? Would such a proposed amendment result in decision-useful information about income taxes? Why or why not?*

As the Board noted during its deliberations, there were concerns relating to the cost and complexity of disaggregating foreign income (or loss) from continuing operations on a country-by-country basis since the information is generally not compiled in such a manner. As a result of the potentially significant book vs. tax differences (both temporary and permanent), we also question the decision usefulness of the information. While disaggregating foreign income tax expense (or benefit) on a country-by-country basis would be less costly, there have been similar concerns about whether that information would be decision useful to the financial statement users.

We believe the same concerns raised by stakeholders regarding the country-by-country disclosures would continue even if the disclosure threshold were changed from a *country-by-country* basis to a *major tax jurisdiction* threshold. Therefore, we do not believe an amendment to require disaggregation of income tax expense (or benefit) from continuing operations by major tax jurisdiction would result in decision-useful information.

Question 6: *The proposed amendments would modify the existing rate reconciliation requirement for public business entities to be consistent with SEC Regulation S-X 210.4-08(h). That regulation requires separate disclosure for any reconciling item that amounts to more than 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate. Should the Board consider a threshold that is different than 5 percent? If so, please recommend a different threshold and give the basis for your recommendation.*

We believe, for public business entities, that 5 percent of the amount computed by multiplying the income before tax by the applicable statutory federal income tax rate is an appropriate threshold for separate disclosure of reconciling items. A 5 percent threshold would have the added benefit of being consistent with SEC requirements. We acknowledge that with the reduced tax rates the threshold will

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be smaller. However, unless the SEC changes its threshold, we believe the diversity would generate unnecessary confusion.

Question 7: *Are there any other disclosures that should be required by Topic 740 on the basis of the concepts in Chapter 8 of Concepts Statement 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.*

No. We do not believe there are other disclosures that should be required by Topic 740 on the basis of the concepts in Chapter 8 of Concepts Statement 8, as a result of the Tax Cuts and Jobs Act, or for other reasons.

Question 8: *Are there any disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons? Please explain why.*

No. We do not believe there are any disclosure requirements that should be removed on the basis of the concepts in Chapter 8, as a result of the Tax Cuts and Jobs Act, or for other reasons.

Question 9: *The proposed amendments would replace the term public entity in Topic 740 with the term public business entity as defined in the Master Glossary of the Codification. Do you agree with the change in scope? If not, please describe why.*

Yes. We agree with the change in scope in which the proposed amendments replace the term “public entity” with the term “public business entity” as defined in the Master Glossary of the Codification.

Question 10: *Should the proposed disclosures be required only for the reporting year in which the requirements are effective and thereafter or should prior periods be restated in the year in which the requirements are effective? Please explain why.*

To reduce the cost and complexity of implementation, we believe that the proposed disclosures should be required only for the reporting year in which the requirements are effective and thereafter. Requiring retrospective application may be costly in situations where entities had not historically captured the information. While entities should be *permitted* to provide prior-year information, we do not believe the additional cost and complexity of *requiring* the proposed disclosures for prior periods is justified by the incremental benefit.

Question 11: *How much time would be needed to implement the proposed amendments? Should the amount of time needed to implement the proposed amendments by entities other than public business entities be different from the amount of time needed by public business entities? Should early adoption be permitted? Please explain why.*

Some entities, as part of their existing disclosure process, may already routinely gather the information necessary to implement the proposed ASU. However, other entities may need a modest amount of time to fully understand and comply with the proposed amendments. Therefore, we believe public business entities should be able to adopt the proposed amendments within one year from the date of issuance of the ASU.

Entities other than public business entities often do not have the same deep level of in-house tax expertise as would public business entities. Accordingly, we believe entities other than public business entities should be provided an additional year in which to implement the disclosure requirements of the proposed ASU.

Early adoption should be permitted for all entities because there is no compelling benefit to prohibiting early adoption of the proposed ASU.

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We appreciate this opportunity to provide feedback on the proposed ASU and would be pleased to respond to any questions the Board or its staff may have concerning our comments. Please direct any questions to Rick Day at 563.888.4017 or Michael Hoffman at 612.455.9442.

Sincerely,

RSM US LLP

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